

Bill Uhlemeyer's response to GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft:

Regarding the proposal to compute and disclose the trailing 3 year standard deviation of returns for the composite and relevant benchmark:

The disclosure may be helpful in portraying the risk taken with the given strategy versus that of the benchmark, however, the implication drawn from the additional information could easily be misinterpreted. The standard deviation measure assumes a normal distribution of returns with the presumption that there is an equal likelihood of above and below average returns. The actual return distribution of the strategy and the benchmark return distribution may have identical standard deviation calculations but entirely different measures of skewness and kurtosis. Because of these differences, inferences made regarding the volatility of a given strategy versus its relevant benchmark, based solely on the respective standard deviations, could be misleading.

The use of the standard deviation would also label that as the appropriate measure of risk when indeed there are others.

If a standard deviation measure is to be a necessary inclusion, a supplemental measure of relative volatility, the upside/downside capture of the strategy versus the benchmark, would help to reduce any misinterpretation. Such a measure would be easy to understand and highlight whether the strategy displays good volatility (upside capture greater than downside capture), equivalent volatility (lower tracking error), or bad volatility (upside capture less than downside capture). Using the upside/downside capture would also highlight whether the strategy was a higher Beta strategy (both upside and downside capture greater than 100), equivalent (both upside and downside close to 100), or lower Beta strategy (both upside and downside capture less than 100).

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